

# City of Somerville

## Closing Cost and Down Payment Assistance Programs

### *WHAT DO THESE PROGRAMS OFFER?*

The City of Somerville can provide assistance in purchasing a home through two different programs. **You may apply for only one of the following programs.**

**Closing Cost 80 Program:** Closing Cost Assistance of up to \$5,000 is available for income-eligible ***first-time homebuyer households*** (earning up to 80% of AMI). This assistance will be offered in the form of a 0% interest, five-year forgivable loan. If the borrower lives in the property and it is their primary residence for five years, the loan is forgiven at the end of the five years. If the borrower moves or refinances the property prior to the five-year loan term expiring, the amount of the loan that remains at the time of default is due. Note eligibility is a two 2 part analysis (a) income and (b) an underwriting process to determine need.

**Down Payment Assistance 80 Program:** Down Payment Assistance of up to 15% of the purchase price of the property is available for income-eligible first-time homebuyer households (earning up to 80% of AMI). This assistance is offered in the form of a 0% interest deferred payment loan. The borrower is also responsible for repaying a portion of the appreciation. The "Appreciation Share", is calculated as follows:

$$\text{Appreciation Share (\$)} = \frac{\text{Principal Sum (\$)}}{\text{Acquisition Cost (\$)}} \times \text{Property Appreciation (\%)}$$

As long as the borrower lives in the property as their primary residence, the loan is deferred. Upon moving or refinancing, the loan is due in full. Note eligibility is

a two 2 part analysis (a) income and (b) an underwriting process to determine need.

**Closing Cost 110 Program: Closing Cost Assistance** of up to \$3,500 is available for income-eligible first-time homebuyer households (earning between 81 and 110% of Area Median Income). This assistance will be offered in the form of a 0% interest, five-year forgivable loan. This loan is forgiven at a rate of 20% per year that the buyer lives in the home. Note eligibility is a two 2 part analysis (a) income and (b) an underwriting process to determine need.

Any property purchased through these programs must meet the State Sanitary Code/HUD Housing Quality Standards as determined by the Office of Strategic Planning and Community Development (SPCD) and must be properly established as a condominium if applicable. In addition, the property value must meet Homeownership Value Limits limits for the 80% of AMI programs (see page 5).

- All funds provided will be secured by a mortgage.

## *WHO IS ELIGIBLE?*

**Income Eligibility** is based on documenting current family income in accordance with HUD guidelines listed on Pg. 4 and does not provide a guarantee that participants will qualify for a mortgage. Participants who are determined to be income eligible to participate in this program must qualify for a standard 30 year fixed rate mortgage with a lending institution. Participants must be first time homebuyers who have taken a first time homebuyer class. To be considered a first time homebuyer, a household cannot have owned a home, or an interest in a home, within the preceding three (3) years. For HUD HOME funds for the 80% Closing

Cost Program, and for the Down Payment Assistance Program, households must be U.S. Citizens, permanent residents or a Qualified Alien under Personal Responsibility and Work Opportunity Reconciliation Act of 1996 "PRWORA"). If Housing staff is unsure of an applicant's status, housing will seek guidance from HUD. Income eligibility is valid for six months from the date a certificate is issued by the City, and a closing must occur within this time frame. If the closing does not happen within 6 months, the household must re-certify with the City.

An underwriting analysis will occur later in the process and will include a review of documents such as the bank commitment letter, the truth in lending statement and the good faith estimate. Applicants not only must be income eligible, but an underwriting analysis must demonstrate a financial need/gap. Funds are committed pending availability of funds at the time of closing and will only be based on the financing gap identified by the underwriting analysis.

Participants must be able to provide at a minimum, private funds of 3% of the Acquisition Cost of the property.

### **Asset Policy**

Households with liquid assets over the higher of \$25,000 or six (6) months documented income will be required to invest these funds (i.e. those over the amount described above) in the purchase prior to the City of Somerville providing an affordability subsidy. All assets for all household members are counted, including gifts for a down payment, except for restricted accounts and government approved college savings accounts. Restricted accounts are qualified retirement accounts such as IRA, 401K, 403B, Pension, etc. Government approved college savings accounts and government approved health savings accounts will not be counted towards the asset limit unless they are being liquidated to purchase a property. Waivers of this policy will be allowed on case by case basis for households that can demonstrate the funds are needed for known expenses such as education of household members, medical needs, or other financial commitments deemed to be necessary and reasonable.

Somerville is held by the federal financial circulars to demonstrate that all funding commitments are reasonable and necessary before committing federal funding.

Applicants who have savings in excess of 15% of the purchase price are not eligible for the down payment assistance program.

***Participants must apply prior to signing a purchase and sales agreement.***

### ***HOW DO I APPLY?***

1. Buyers meet with a Bank to get pre-approved and *submit pre-approval letter(s) to City staff*. The participant's primary mortgage pre-approval must have conventional terms (30 year fixed-rate standard mortgage). The mortgage pre-approval must be from a bank or recognized lending institution using conventional underwriting criteria. Pre-approvals from other sources may not be accepted.
2. Complete an application. Upon being determined income eligible you will receive a certificate (active for 6 months). ***Please note it will take up to a week to review the initial application, and we may request additional documents if needed before a final income certification can be completed. Applicants are strongly recommended to apply early, well in advance of the deadline to sign a purchase and sale. It can take up to two weeks to complete the income certification period.***
3. Buyers locate their own property, negotiate the best price possible (must meet Homeownership Value Limits for 80% AMI programs), have a private Home Inspection performed and sign an Offer to Purchase. *Submit copy of Private Home Inspection and Offer to Purchase to City staff.*
4. ***SPCD must inspect the property*** and develop a list of required repairs (if needed), ***prior to the P&S agreement being signed. Please allow at least a minimum of 5 business days for this to be scheduled.*** Buyer

re-negotiates price (if applicable) and enters into a Purchase and Sales Agreement. *Buyer submits copy of P&S agreement to SAHTF staff*

5. Buyer applies for a conventional-term mortgage with their chosen lender.
6. When mortgage is approved, the Bank will issue a Commitment Letter.  
*Buyer must submit a copy of Commitment Letter, Good Faith Estimate, Truth in Lending Statement, HUD-1 Settlement Statement and Bank Appraisal to City staff.*
7. City staff will use the above submitted documents for their underwriting analysis.

*City staff will begin to process City loan documents ONLY when the above steps are completed. City staff will work with buyer and bank to determine a mutually convenient **closing date**.*

## Income Eligibility

Applicants must have incomes at or below 80% of Area Median income for the 80% AMI Closing Cost or Down Payment Program. Applicants must have incomes at or below 110% of Area Median Income for the 110% AMI Closing Cost Program. The Maximum Household incomes by Household Size are as follows.

<b><u>FAMILY SIZE</u></b>	<b><u>80% INCOME LIMIT</u></b>	<b><u>110% INCOME LIMIT</u></b>
1	\$47,450	\$72,450
2	\$54,200	\$82,800
3	\$61,000	\$93,150
4	\$67,750	\$103,500
5	\$73,200	\$111,750
6	\$78,600	\$120,050
7	\$84,050	\$128,350
8	\$89,450	\$136,600

**PLEASE NOTE: PARTICIPANTS WHO ARE DETERMINED ELIGIBLE FOR THE ASSISTANCE STILL NEED TO BE DETERMINED ELIGIBLE FOR A MORTGAGE BASED ON LENDING INSTITUTION REQUIREMENTS. THE AMOUNT OF MORTGAGE YOU MAY QUALIFY FOR IS BASED ON YOUR INCOME, YOUR DEBTS, YOUR CREDIT, AND OTHER FACTORS AS DETERMINED BY THE LENDING INSTITUTIONS.**

## Homeownership Value Limits

Any property purchased through either the Closing Cost Assistance 80 or Down Payment Assistance 80 Programs must meet the Homeownership Value Limits. The newly constructed and existing housing limit are both based on 95% of the median sales price in the area but use different data sets for their calculations. These limits are as follows:

<b><u>House Type</u></b>	<b><u>Maximum Value New</u></b>	<b><u>Existing</u></b>
Condominium	\$311,000	\$285,000
Single-Family	\$311,000	\$285,000
Two-Family	\$398,000	\$365,000
Three-Family	\$482,000	\$442,000
Four-Family	\$596,000	\$547,000

Maximum Value includes the purchase value and any rehabilitation needed to get the property up to Housing Quality Standards.

## Intake, Analysis & Determination

The City staff shall perform intake and assign support staff collection of data responsibilities as needed.

Intake shall include, but not be limited to:

1. A fully completed application.
2. Three ***consecutive months worth of current*** pay stubs for each person earning income. Employer verification for overtime, bonuses, commissions, etc.
3. Three consecutive 1040 Federal Tax forms, W2s and associated documents (including 1099s, all pages and schedules).
4. A copy of the social security cards for all household members.
5. A mortgage pre-approval from a conventional lender for conventional mortgage terms.
5. Copies of *most recent* bank account/investment account statements for every household member, *all pages* (even if last page is blank). This includes every savings, checking, 401(k), IRA, money market and certificate of deposit from every institution for *each* household member.

The City staff shall review all documents and determine income eligibility.

Please note that the income determination is different from the underwriting analysis to determine household need.



## **Certificate Issued & Pre-qualification**

Once the applicant has been certified as eligible and Income Verification forms have been signed, SAHTF staff shall issue a \*certificate to the applicant to include an expiration date within six (6) months.

A certificate can be renewed at the end of the six (6) month term, but a full income certification must be undertaken to do so.

**Program eligibility is only determined once a property is identified. This property must meet Homeownership Value Limits (for 80% of AMI programs only) and pass a Housing Quality Standards inspection. Funds are committed pending availability of funds at the time of closing. The City makes no guarantee that funds will be available at the time of income certification.**

The City staff shall mail out a certificate along with Steps to Follow letter.

## **Offer To Purchase And Home Inspection**

The applicant shall submit the Offer to Purchase property to the City staff.

The City staff shall review the Offer for completeness.

The City staff shall notify the applicant of the requirement to hire a Private Home Inspection Company. This inspection report is to be placed in the file.

The City staff will assign an Inspector and review the Private Home Inspection with him/her as well as the contact name and number. ***This must occur prior to a client signing a purchase and sales.***

## **Purchase & Sale Agreement And Bank Commitment**

City staff shall review the P&S for completeness and advise the client on any revisions based upon the Inspector's findings.

If the P&S is acceptable, the City staff shall advise the client to apply to a Bank or lender of their choice for a mortgage loan (provided the loan will be a 30 year fixed-rate standard mortgage). The City needs to receive a copy of the fully executed Purchase and Sale.

The client must submit an original Bank Commitment, Bank Appraisal, Truth in Lending Statement and Good Faith Estimate letter to the City staff prior to SPCD processing the Assistance check.

Once the City has all of the above listed documents, City staff will perform an underwriting analysis.

## **Closing**

The City staff shall coordinate a mutually agreeable "Closing Date" with buyer, seller, broker, bank and any other person deemed necessary to complete the transaction. The Assistance Check takes approximately two weeks to be generated, and the Check must be brought to the Closing.

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